

**WATER/KPC/KOK/DLW/RHG****PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**WATER DIVISION - UTILITY AUDIT,  
FINANCE AND COMPLIANCE BRANCH**

**RESOLUTION W-4621  
October 19, 2006**

**R E S O L U T I O N**

**RESOLUTION W-4621. LITTLE BEAR WATER  
COMPANY, INC. (LITTLE BEAR). REQUEST FOR  
AUTHORITY TO PROCURE THE LOAN APPROVED BY  
RESOLUTION (RES.) W-4545, FROM PINNACLE BANK.**

**By Advice Letter (AL) No. 47 filed on September 12, 2006.**

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**SUMMARY**

This Resolution authorizes Little Bear to procure the \$540,000 loan granted by Res. W-4545, dated June 30, 2005, in AL No. 44, from Pinnacle Bank, and to encumber its assets in connection with the loan, pursuant to Pub. Util. Code §§ 816 through 851.<sup>1</sup>

Notice of AL No. 47 was made by publication in the Commission's Daily Calendar of September 13, 2006. No protests have been received.

**BACKGROUND**

Little Bear, a California corporation, is a Class D water utility subject to the jurisdiction of this Commission. Little Bear provides water service to 705 customers and sewer service to 393 customers in the Pine Canyon area (upper and lower canyon) of King City, Monterey County. Water is pumped from wells and stored in small reservoirs before it enters the water distribution system. The largest reservoir is a 125,000-gallon reservoir serving 551 connections in the lower canyon and the upper parts of the water system. While there are other distribution reservoirs in the

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<sup>1</sup> All statutory references are to the Public Utilities Code unless otherwise indicated.

upper pressure zones, the main distribution reservoir needs to be sized as if the water system only has one pressure zone and one reservoir.

In Res. W-4545, the Commission noted that the establishment of the new Enhanced Surface Treatment Rules by the Department of Health Services (DHS) prompted Little Bear to determine its needed storage volume and to request to increase its storage capacity, with the proposed construction of three new reservoirs, at a location that is easier to protect and secure. The Commission authorized Little Bear to borrow \$540,000 from the Steinbeck Credit Union of Salinas (Steinbeck) for purposes of its proposed construction, and to encumber its assets in connection with the loan.

## **DISCUSSION**

AL No. 47 states that Little Bear had planned to obtain the \$540,000 loan from Steinbeck, but when the time came to finalize the loan terms, it found that the final terms offered by Steinbeck were not advantageous. The interest rate offered by Steinbeck was adjustable from 6.75% - 9.25%, after a 5 year fixed rate period. The total term was to be 30 years with a 10-year balloon payment.

Little Bear states that finding another lender was a lengthy process. It was not until recently, that Little Bear obtained a commitment letter from Pinnacle Bank, for a secured loan of \$540,000, with a term of 10 years, a 15-year amortization period and an interest rate based on the Constant Maturities Treasury (CMT) rate plus 2% fixed. The current rate is 7.23%.

Little Bear states that the Pinnacle Bank loan proceeds will be used for the same purpose as originally approved in Res. W-4545, i.e., for the construction of three 250,000-gallon water storage tanks.

**A. Construction Budget**

The estimated costs for the proposed construction of three water storage tanks, as shown on page 5 of Res. W-4545, follows:

Surveying and design		\$ 8,600
Site preparation:		
Earthwork	\$ 20,750	
Compaction testing & grading	4,000	
4" base rock for all-weather access	55,600	
6' chain link security fencing	8,568	
8' wide chain link gates	<u>2,400</u>	
		91,318
Design & construction of reservoir tanks	\$285,000	
PVC water main	69,860	
Gate valve, tee fitting, reducer, bend, cap	12,750	
Concrete thrust blocks	<u>1,800</u>	
		369,410
15% Contingency		<u>70,399</u>
Total		<u><u>\$539,727</u></u>

While the construction, extension or improvement of a company's facilities are proper uses for financing authority pursuant to § 817(b), we will not make a finding in this Resolution on the reasonableness of Little Bear's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in cost-of-capital or general rate case proceedings.

## B. Capital Structure

As shown in Res. W-4545, Little Bear's capital ratios as of December 31, 2004, and the pro forma effect of the projected \$540,000 debt follows:

	<u>Recorded</u>		<u>Adjustment</u>	<u>Pro forma</u>	
Long-term debt	\$	5,365	0.9%	\$ 540,000	\$ 545,365 46.6%
Equity		<u>625,667</u>	<u>99.1%</u>	<u>0</u>	<u>625,667</u> <u>53.4%</u>
Total Capitalization	\$	<u>631,032</u>	<u>100.0%</u>	<u>\$540,000</u>	<u>\$1,171,032</u> <u>100.0%</u>

While it appears that approving Little Bear's financing request will not materially change the capital structure to the detriment of ratepayers, capital structures are normally subject to review in cost-of-capital or general rate case proceedings. We will not, therefore, make a finding in this Resolution of the reasonableness of the projected capital ratios for ratemaking purposes.

## C. Approval of New Lender

Article 5 of Chapter 4 of the Public Utilities Act (which is Part 1 of Division 1 of the Pub. Util. Code) sets forth conditions a public utility must satisfy to issue debt. One condition is that the debt be for a permitted purpose listed in § 817. That Section states, in relevant part, as follows:

Section 817: A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for any one or more of the following purposes and no others.

- (b) For the construction, completion, extension, or improvement of its facilities.

Little Bear's proposed project appears to be for a proper purpose and thus qualifies under this provision. We will authorize Little Bear's request in this filing. Our action in this matter would facilitate Little Bear's funding requirements needed for water system improvements, consistent with the authority granted by Res. W-4545, and in all material respects, except for

the change in lender from Steinbeck to Pinnacle Bank, the amount of debt and the proposed use of proceeds remain unchanged. Necessarily, pursuant to § 851, we will allow Little Bear to encumber its property to secure the Pinnacle Bank debt.

The proposed project is not included in Little Bear's current rates. Little Bear's present rate schedules for water service include an increase based on the most recent year end increase in the Consumer Price Index that became effective May 11, 2006. The last general rate increase became effective January 2, 2002, pursuant to Res. W-4311, which authorized a general rate increase of \$59,400 or 22.2% and a rate of return of 12.25%.

#### **D. Rate Base Treatment**

The Commission, in Res. W-4545, noted that Little Bear plans to file a general rate case in the near future and request facilities fees that will provide additional funds to pay for a portion of the proposed storage tanks and for other utility infrastructure replacements.

For capital costs to be included in rate base, Little Bear should file an advice letter once the additions to plant have been completed. The filing will be subject to reasonableness review and will require Commission approval.

#### **E. Fees**

Whenever the Commission authorizes a utility to issue debt, the Commission is required to charge and collect a fee in accordance with § 1904(b). On July 11, 2005, Little Bear paid the fee of \$1,080, for the \$540,000 debt authorized by Res. W-4545, as required by §1904(b).<sup>2</sup> Since the debt authority remains unused, there is no fee required in this Resolution, which solely authorizes the use of another lender, without any increase or expansion of the amount of the loan, thereof.

#### **COMMENTS**

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<sup>2</sup> The amount subject to the fee is \$540,000. The fee is determined as follows:  $(\$2 \times (540,000/1000)) = \$1,080.00$ .

This is an uncontested matter in which the Resolution pertains solely to a water company. Accordingly, pursuant to § 311(g)(3), the 30-day period for public review and comment under § 311(g)(1) does not apply.

## **FINDINGS**

1. Little Bear, a California corporation, is a Class D water utility subject to the jurisdiction of this Commission.
2. The additional storage tanks to be situated in a better location appear to be needed to provide (1) high quality and reliable water supply, (2) room for customer growth, (3) promote better access, maintenance, and security.
3. The loan will provide capital for the needed water system improvements and is a reasonable means of acquiring the necessary \$540,000 of capital.
4. The reasonableness of any resulting capital structure, interest rate and cost of money arising from debt capital are normally subject to review in cost-of-capital or general rate case proceedings.
5. Authorizing Little Bear to secure the loan from Pinnacle Bank instead of Steinbeck, and to encumber its properties as security for the loan, is not adverse to the public interest.
6. Plant additions, to be included in rate base, are subject to separate filing and reasonableness review.
7. Pursuant to § 1904(b), a fee does not need to be paid on any portion of any issue that would be used to guarantee, take over, refund, discharge, or retire any evidence of indebtedness on which a fee has been paid to the Commission.
8. There is no known opposition, and there is no reason to delay granting the authority requested.

**THEREFORE, IT IS ORDERED THAT:**

1. Little Bear Water Company, Inc., on or after the effective date of this order, is authorized to borrow \$540,000 from Pinnacle Bank, in lieu of the Steinbeck Credit Union of Salinas, upon terms and conditions substantially consistent with those set forth or contemplated in Advice Letter No. 47 and schedules attached thereto; to encumber its assets in connection with the loan; and to use the proceeds for the construction of three water storage tanks.
2. Little Bear Water Company, Inc. shall maintain adequate records of the receipts and disbursements pertaining to the debt facility granted by this order because they may be subject to our review.
3. In order to include capital expenditures in rate base, Little Bear Water Company shall file an advice letter, once the plant additions have been completed and are being used and useful, with the additions subject to reasonableness review.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on October 19, 2006. The following Commissioners approved it:

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STEVE LARSON  
Executive Director